Energy Division Data Request
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PG&E 2015 ERRA Forecast – A.14-05-024
SDG&E RESPONSE
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SDG&E Responses to Questions posed in PG&E's 2015 ERRA Forecast PCIA methodology workshop

Opening

All discussions of departing load charges need to be framed by current law and the current obligations that are imposed on the Commission. In that regard, SB350 provides the following direction to the CPUC:

SEC. 14. Section 365.2 is added to the Public Utilities Code, to read:

- 365.2. The commission shall ensure that bundled retail customers of an electrical corporation do not experience any cost increases as a result of retail customers of an electrical corporation electing to receive service from other providers. The commission shall also ensure that departing load does not experience any cost increases as a result of an allocation of costs that were not incurred on behalf of the departing load.

SEC. 15. Section 366.3 is added to the Public Utilities Code, to read:

- 366.3. Bundled retail customers of an electrical corporation shall not experience any cost increase as a result of the implementation of a community choice aggregator program. The commission shall also ensure that departing load does not experience any cost increases as a result of an allocation of costs that were not incurred on behalf of the departing load.

Given that there are no firm plans for additional departing load in the SDG&E service area (DA is at its allowed cap and the lack of a firm CCA plan), SDG&E's comments are limited to addressing the major elements in the current formula, in particular the values used to determine the market benchmark. Addressing the major elements will likely move us closer but still may not achieve the statutory requirements.

1. Please indicate your understanding of how the PCIA is calculated, identifying, in as much details as possible, each input to that calculation.

SDG&E Response to Question 1:

To maintain bundled customer indifference to the departure of SDG&E's customers to non-utility service, SDG&E calculates the above-market costs, or indifference amount, to determine the cost responsibility for DA, CCA and other departing load, specifically:

Indifference Amount = Competition Transition Charge (CTC) + PCIA

- Forecasted procurement costs for each contract and utility owned generation resource are summed by vintage category and by appropriate balancing account.

- Portfolio generation resources are assigned a vintage based on the year of the contract execution date.
- Vintage categories are Old World (pre-2003), New (2004-2008), and by year from 2009 forward.
- The forecasted costs allocated to each vintage are cumulative of all preceding vintages.
- Balancing Accounts include the Energy Resource Recovery Account (ERRA), Non-Fuel Generation Balancing Account (NGBA), and Transition Cost Balancing Account (TCBA) (CTC Costs).
    - Local Generation Balancing Account (LGBA) procurement costs and CAISO market expenses (CAISO load charges, supply revenues, market purchases and sales, grid management charges, ancillary services, The Western Renewable Energy Generation Information System (WREGIS) costs, etc.) included in ERRA are not included in the PCIA calculation.

- The above-market procurement costs, or indifference amount, for both the CTC and PCIA are determined using a Market Price Benchmark (MPB), a calculated proxy, which is intended to represent the market value of electricity.

- The formula for the MPB calculation is:

MPB= [(Brown Power * Brown % + Green Power * Green %) + Capacity Adder] * Losses

- Brown and Green % are calculated for each vintage based on IOU specific portfolio forecasted generation for cumulative vintage resources (Brown % + Green% = 100%)
- Brown Power = SP15 forward price curve for SDG&E (on and off peak weighted by SDG&E's most recent publicly available load shape)
- Green Power = 68% * URGgreen + 32% * (Brown Power + DOE adder)
    - URGgreen= Aggregate IOU RPS costs – (RPS NQC * Capacity value)
    - URG Green is provided to the IOUs by the Energy Division after receiving each utility's specific RPS cost and NQC data
    - NQC= Net Qualifying Capacity as specified by the CAISO for each generation resource
    - DOE adder = Average WECC-wide RPS premium from DOE website ($16.55 for 2016)
- Capacity Adder = Capacity Value * Portfolio NQC/Portfolio generation
    - Capacity Value = $58.27/kw-yr from Table E-4 of the CEC March 2015 report, the "Mid Case Component Levelized Cost of Equity for Merchant Plants.
    - Portfolio NQC and Portfolio generation are vintage specific
- Losses = utility specific loss factor = 1.043 for SDG&E

- The calculated CTC amount is subtracted from the indifference amount to determine each vintage's PCIA amount.
- The vintaged PCIA amount is allocated to customer class using SDG&E's approved Competition Transition Charge (CTC) allocation percentages:
  - Residential 40.9%
  - Small Commercial 11.6%
  - Medium/Large Commercial & Industrial 46.5%
  - Agricultural 1.0%
  - Lighting 0.0%
- The vintaged PCIA rates are calculated by taking the customer class allocated revenues and dividing by the forecasted usage by customer class.

2. Do you believe the current PCIA methodology should be changed? If so, how and why? Please be as specific as possible.

SDG&E Response to Question 2:

The current PCIA formula was developed many years ago based on the factual circumstances confronted by the Commission at the time and modified over time based on the law, resource portfolios and anticipated load departures at that time. It also resulted from compromises between accuracy and ease of administration, as determined to be reasonable under the factual circumstances that were considered at the time. The existing methodology, however, was developed prior to the state's implementation of Public Utilities Code Sections 365.2 and 366.2 and without consideration of the unique factual circumstances that may be confronting each of the state's IOUs today.

Indeed, it may be the case that a single formula as has been used in the past for all three IOU's is no longer capable of fulfilling the requirements of Sections 365.2 and 366.3 given the unique resource positions and potential load migration faced by each IOU. Depending on the circumstances applicable to each utility, the existing PCIA methodology could force bundled customers to pay significantly more than their proportion of above-market costs. Legislative compliance under the particular circumstances of any given utility might even require one formula for previously departed load and another for future departures.

As previously stated, given that there are no firm plans for additional departing load in the SDG&E service area (DA is at its allowed cap and the lack of a firm CCA plan), SDG&E's comments are limited to addressing the major elements in the current formula, in particular the values used to determine the market benchmark. Addressing the major elements will likely move us closer but still may not achieve the statutory requirements

The PCIA is driven by the assumed benchmarks in the formula. The benchmark used for renewable power in the current formula uses a number of factors that do not represent the current market or SDG&E's portfolio mix. The green adder is a combination of the average cost of the IOUs' newly delivering RPS contracts and a REC value added to brown power. The prices and weighting for both of these components does not reflect the market that SDG&E would be transacting in to adjust its renewable portfolio to address load loss. Since the average cost of the IOUs' newly delivering RPS contracts reflects the cost of renewables contracts signed many years earlier and not today's cost, it's not reflective of current market prices. In order to assure that "Bundled retail customers of an electrical corporation shall not experience any cost increase as a result of the implementation of a community choice aggregator program," the market value needs to reflect the specific market the utility will be interacting with based on its portfolio, either as a buyer or seller.

Likewise, the value used for the capacity adder does not reflect the market prices that the utility will be interacting with as it adjusts its procurement. The Commission's RA report shows that actual market prices are not consistent with the current benchmark based on a CEC report of the going-forward costs of a simple combined-cycle combustion turbine as estimated by the California Energy Commission.

3. How should the CPUC address the potential departure from bundled service of a very large load, such as the City of San Diego or County of Los Angeles? Would transferring contractual responsibility from an IOU to a CCA be an option?

SDG&E Response to Question 3:

Given these proposed scenarios are theoretical at this time, it's not possible to provide any specific comments as to what would be required of the Commission. However, given the particular circumstances faced by any particular utility, it is clear that the Commission is required to ensure that, "bundled retail customers of an electrical corporation shall not experience any cost increase as a result of the implementation of a community choice aggregator program," pursuant to the provisions of SB350. Therefore, to the extent an existing methodology would not produce the statutorily required outcome, the Commission would need to adopt an alternative solution, including one that might only apply to that specific situation. In Decision 13-08-013 the Commission stated that it is willing to re-open calculation based on changing circumstances and on a case by case basis informed by the specific context in which the costs are incurred. One such change in circumstances is the state's adoption of SB350. In order to ensure statutory compliance, the Commission may need to address the unique situations faced by a particular utility through a PCIA methodology that is designed to ensure statutory compliance under those unique circumstances.

4. Should Direct Access (DA) customers and Community Choice Aggregator (CCA) customers be treated differently vis-à-vis the PCIA? If so, why and how?

SDG&E Response to Question 4:

The provisions of Section 365.2 do not distinguish between CCA and DA providers.

5. Can transparency regarding the calculation of the PCIA be increased while protecting valid interests in keeping certain information confidential?

SDG&E Response to Question 5:

The current level of confidentiality is appropriate for the PCIA as it is based on the balance the Commission has reached regarding transparency and protecting bundled customers from potential harm. The majority of the information related to the PCIA calculation is publicly available in either testimony or public workpapers in the Energy Resource Recovery Account ("ERRA") Forecast proceeding. To the extent some data is confidential, the Commission has a defined process and specific rules that allow access.